



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

JUN 25 2019

Mr. Glenn McCullough
Executive Director
Disaster Recovery Division
Mississippi Development Authority
P.O. Box 849
Jackson, MS 39205-0849

Dear Mr. McCullough:

Thank you for the time you and your staff spent with the Department's representatives during the May 22-23, 2019, management review of supplemental Community Development Block Grant disaster recovery (CDBG-DR) funds used towards the Port of Gulfport (POG).

Based on this review, the Department is hereby submitting the enclosed report to the State's designated program administrator, the Mississippi Development Authority (MDA). The objective of the review was to determine if MDA is maintaining proper documentation to demonstrate compliance with job creation requirements and consistency with the State's action plan describing the use of funds.

The monitoring review resulted in a determination that the POG has met a CDBG-DR national objective and the Finding regarding the creation of jobs at the POG is closed.

If you have any questions about this review, please contact Ms. Tennille Smith Parker, Director, Disaster Recovery and Special Issues Division, at (202) 402-4649.

Sincerely,

A handwritten signature in blue ink, appearing to read "Claudette Fernandez".

Claudette Fernandez
Director
Office of Block Grant Assistance

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
MANAGEMENT REVIEW REPORT**

Mississippi Development Authority



**Community Development Block Grant
Supplemental Disaster Recovery Funds
State of Mississippi**

Grant Numbers

**B-06-DG-28-0001
B-06-DG-28-0002
B-08-DI-28-0001
B-08-DF-28-0001**

INTRODUCTION

Monitoring is not limited to a one-time evaluation, but rather is an ongoing process that assesses the quality of a grantee's performance over a period. Successful monitoring visits require effective communication and cooperation between federal, State, and local partners.

HUD conducted four onsite monitoring reviews of the MDA's management of the supplemental Community Development Block Grant disaster recovery (CDBG-DR) on February 12-16, 2018, August 27-31, 2018, March 4-8, 2019, and May 22-23, 2019. The February 2018, March 2019, and May 2019 reviews were conducted at MDA's attorneys' office, Balch & Bingham, LLC, in Gulfport and the August 2018 review was conducted at MDA's attorney's office Balch & Bingham, LLC, in Jackson.

This report focuses on the results of the reviews relating to the State's job creation documentation for the Port of Gulf Port Restoration Program (PGRP), along with the economic impact, as a result of the CDBG-DR investment in the POG. The conclusions from the other areas reviewed during the prior monitoring visits will be addressed under a separate report.

SCOPE OF REVIEW

The scope of the review focused on verifying the job creation documentation for the PGRP in support of the State's determination that the project met the low- and moderate-(LMI) income job creation national objective as defined at 24 CFR 570.483(b)(4) and verifying if appropriate corrective actions have been implemented by the State since HUD's issuance of a Finding on the PGRP activity in August of 2013.

BACKGROUND

The State's CDBG-DR Action Plan contains background information on the Port of Gulfport and the effects that Hurricane Katrina had on the Port's physical infrastructure and operations and is quoted below for reference:

Prior to Hurricane Katrina, for the month of December 2004, the Port exported and imported a total of almost 228,000 tons of cargo. For the month of December 2005, four months after the storm, the Port was able to move only 98,000 tons of cargo. In 2004, 353 vessels arrived at the Port and 2.4 million tons of cargo was handled. In 2006, 234 vessels arrived, and 1.6 million tons of cargo was handled.

Although work has been done to repair storm damage, and in instances repair only temporarily, the Port has been unable to return to pre-storm operating capacity levels.

While the Port's operating capacity has improved in some areas, in general, all operations continue to lag far behind pre-storm capacities with some operations not yet resumed. In 2004, the Port imported approximately 756,600 tons of bananas; 655,600 tons were imported in 2006. Currently warehousing located four miles off-dock is being used to serve the fruit carriers' needs.

Gearbulk has relocated its break-bulk operations to Pascagoula since there are no on-dock warehouses remaining at the Port. Shippers and break-bulk carriers have notified the Port of their interest in returning as new infrastructure becomes available. It should also be noted that the tenants who have returned are operating at a higher cost and the Port is at risk of losing the tenants if adequate infrastructure cannot be provided.

In 2004, the Port exported 140,800 tons of frozen cargo, most of which were poultry products. The Port remains unable to export any frozen cargo because it has been unable to replace its freezer facilities. The frozen poultry market is now served through other competing ports, such as Mobile, due to the loss of the on-dock freezers.

Following the damage from Hurricane Katrina in September 2005, the Port began to assess the goals and vision of the previously adopted 2003 Port Master Plan and establish the 2007 Master Plan Update. The goals of the 2003 Master Plan were to consolidate terminal activities to maximize terminal efficiencies, minimize traffic conflicts/congestion and accommodate future growth anticipated in the market over the twenty-year planning horizon. During review of the adopted 2003 Plan, the Port determined that the prior planning efforts were based on sound judgment and many of the concepts are still applicable after the hurricane and will provide long-term economic recovery.

The 2007 Master Plan Update is a result of reviewing the prior planning efforts, the impacts of Hurricane Katrina, mitigation from future storms and updating maritime cargo forecasts. In addition, existing tenants were interviewed to identify future expansion plans and potential new market developments. It should be noted that the 2007 Master Plan Update is a five-and-ten-year plan as opposed to the twenty-year plan described in the 2003 Master Plan.

...

The 2007 Master Plan Update projects approximately 5,400 direct, induced and indirect maritime jobs to be generated by the year 2015.

Table 3

Current and Potential Maritime Jobs At the Port of Gulfport				
Jobs	Pre-Katrina 2005	Current 2007	5 year 2010	10 year 2015
Direct	2,058	1,286	2,348	2,586
Indirect & Induced	1,142	714	2,555	2,814
Total	3,200	2,000	4,903	5,400

Table #3 shows there were 2,058 direct maritime jobs prior to Hurricane Katrina. Of these 2,058 jobs, 205 were held by individuals with low-to-moderate-income. In 2007, the number of direct maritime jobs has fallen to 1,286, 141 of which are held by individuals with low-to-moderate-income. As the recipient of this funding, the Port and its tenants will

make jobs available to low- to moderate-income workers. The Port's tenants will be required to sign a contract/Memorandum of Agreement (MOA) with the Port. The MOA will detail the job classification categories and the number of jobs created or retained that will be made available to low-to-moderate-income persons. All jobs created or retained and those that are made available to low-to-moderate-income workers will be documented and reported. These efforts will provide relief and long-term recovery to the disaster area and are consistent with the CDBG program's primary purpose.

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In response to the impacts to the Port caused by Hurricane Katrina, MDA allocated a total of \$570 million in CDBG-DR funding for the Mississippi State Port Authority (MSPA) towards the PGRP to facilitate the restoration of public infrastructure and publicly-owned facilities that were destroyed, to provide mitigation against future damage and to provide for the long-term recovery of the operating capacity of the Port.

SUMMARY OF RESULTS AND CONCLUSIONS

Monitoring reviews may result in the identification of Findings or Concerns. A Finding is a deficiency in program performance based on a statutory, regulatory, or program requirement for which sanctions or other corrective actions are authorized. A Concern is a deficiency in program performance not based on a statutory, regulatory, or other program requirement. HUD issues a Finding relating to documentation to support the use of the CDBG low- and moderate-income national objective for the PGRP in a monitoring report as a result of an August 2013 monitoring visit. The prior Finding is restated below:

Finding #1 (August 2013)

MDA has not maintained adequate records to assist in demonstrating ultimate compliance with the CDBG low- and moderate-income national objective for the PGRP.

HUD Corrective Action: To ensure that the Mississippi State Port Authority and Mississippi Development Authority establish a process that complies with applicable statutory and regulatory requirements, HUD is imposing the following corrective actions to prevent future documentation deficiencies for job creation activities:

- 1) Within 60 days of the date of the August 2013 monitoring report, MDA shall submit to HUD the policies, processes and procedures that it intends to use to document jobs to be created at the PGRP. The Department will review the materials for adequacy and inform the MDA of any revisions that are deemed necessary to meet applicable requirements.

- 2) The State must meet with senior HUD staff each quarter, beginning in June 2014 to discuss progress with the PGRP job creation activities, new tenant leases that will lead to those job opportunities, and efforts to recruit and train employees for those jobs.
- 3) The State must submit the required jobs documentation to HUD for each job created or retained with the submission of each Quarterly Performance Report (QPR), beginning with the QPR due in April.
- 4) When leases are executed, the State must submit to HUD the agreements it has entered with each business tenant at the Port of Gulfport, indicating the specific jobs to be created/retained and the projected timeframes for implementation. Each agreement should also identify the corrective actions the State will impose if the businesses do not comply with the job creation requirements and the timeframe for job creation activities to be complete.

In August 2018, HUD staff met with MDA and the MSPA staff to discuss progress with the PGRP. At that time, MDA restated its pledge that construction at the Port of Gulfport is scheduled to be completed by December 2018. MSPA reported that Top Ship is not on task to create the 700 jobs as indicated in the agreement because there has been a downturn in the ship building business. This downturn affected Top Ship's ability to fulfill the terms of the agreement with MSPA. Top Ship has now been omitted from the list of tenants scheduled to create jobs for the project.

HUD has provided ongoing technical assistance since HUD issued the Finding regarding job creation in 2013, including a recommendation to the State to re-evaluate the Action Plan and consider an amendment to accurately reflect the number of jobs to be created and to add various jobs *other than maritime* jobs to the Action Plan. The amendment would clearly describe how the State was adding hotel jobs in addition to the maritime jobs discussed in the Action Plan.

HUD also recommended that the State complete an Economic Impact Study (EIS) to qualitatively estimate the economic benefits of the POG expansion project for the Gulf Coast Community. By doing so, this will solidify the vitality of the project and justify the CDBG-DR investment towards job creation from the POG's tenants. During the August 2018 review, the State reported to HUD that the EIS was underway and is being conducted by the Stennis Institute of the Mississippi State University for an anticipated publication date of June 2019.

Port of Gulfport Created Low and Moderate Income Jobs as Identified in the Initial Action Plans

HUD was unable to close the Finding during the August 2018 monitoring visit but committed to revisit MDA's job creation progress as part of the next monitoring and technical assistance visit scheduled for March 4-8, 2019.

Per the State's December 2018 request, HUD conducted an onsite review of MDA's job creation documentation for the Island View resort to determine if the Finding could be closed in March 2019. During the monitoring review, MDA advised HUD that to date, 588 jobs had been created at the POG, of which 373 or 63 percent were held by LMI persons. HUD confirmed MDA's job creation

numbers reported to date were identical to data entering into the QPR in the Disaster Recovery Grant Reporting System (DRGR).

Entity / Tenant	Total Jobs Created	LMI Jobs	Non-LMI Jobs
Port of Gulfport	7	1	6
Gulf Coast Shipyard Group	116	73	43
McDermott	136	23	113
The University of Southern Mississippi	2	1	1
Island View Hotel (previously reported in DRGR)	326	275	51
Unclassified	1	0	1
Total	588	373	215

These jobs align with the types of jobs the State identified in the initial Action Plan and approved amendments. However, the 588 jobs identified is less than the 1,200 jobs the State indicated would to be created as identified in the initial Action Plan.

The Port of Gulfport Restoration Project Created Additional Jobs from Auxiliary Port Activities

In 2017, the State indicated that there were additional jobs created at the Port as part of the expansion of the Island View Resort. The Island View Resort property is located on land owned by POG, but is not on the property identified as the serviceable port/maritime activities described in the Initial Action Plan. In preparation for HUD's review of job creation documentation for these jobs, MDA provided the HUD monitoring team with a sample of records for 112 of the 522 Island View resort new hires to review.

After a thorough review of the sample, HUD determined that 20 files (18%) were duplicative or persons had been rehired and counted twice. HUD also reviewed a sample of 12 payroll records from the 2018 New Hires sample for HUD to verify their full-time status. Within that sample group, three payroll records (25%) indicated the employees never worked full time. HUD concluded in its March 2019 review that while MSPA is making progress, the recordkeeping does not support the numbers reported to satisfy the job creation requirements for the project as HUD could not determine the total amount of jobs created.

Based on the technical assistance received from the prior monitoring visits, MDA revised its methodology for counting jobs at the Island View facility. The new methodology accounted for part-time employment by converting those positions to Full-Time Equivalent (FTE) positions and resolved other items noted during the prior review. MDA established a baseline was by identifying the FTE positions that existed in the 3rd quarter of 2013, prior to the Island View's expansion on lands leased from the POG. The same methodology was used to determine the FTE positions in the third quarter of 2018, after the expansion was complete and the facility was staffed.

HUD reviewed the State's revised methodology during the May 22-23, 2019, monitoring visit. Source data for the job creation numbers was contained in the Island View Resort Human Resources and Payroll systems at the Island View facility. For each new hire, Human Resources completed the Employee Transaction Slip, which indicated the name of the employee, ID number, positions, hire date, and rate of pay. Additionally, a spreadsheet was generated from the payroll system that had several data points, including the employee's name, address, hire date, position, full-time or part time status, and number of hours worked.

The State, using the data contained in Island View's Human Resources and Payroll system, reports a total of 1,167 new total FTE jobs.

The MSPA Policy and Procedure Manual for reporting PGRP Job Creation for National Objective provides for six methods for counting and determining LMI jobs under 24 CFR 570.483(b)(4). The Port elected to use the option that allowed LMI to be determined based on the hourly rate of the position. The Island View Human Resources collected and recorded this information in the Employee Transaction Slip.

To supplement this information, the average hourly rate for each employee was extrapolated from the Island View's payroll system and added to the spreadsheet. Accounting for part-time employment, the spreadsheet indicated that there were 1,018.7 FTEs that were LMI, resulting in 94 percent of the total creation being LMI. To verify the accuracy of the information contained in the Employee Transaction Slip, HUD reviewed a random sample of 30 employee ID numbers in the payroll system at the Island View. Based on the sample, 96 percent of the jobs created were LMI based on the hourly pay rate of the employee.

CONCLUSIONS

As a result of the review, HUD concurs with MDA that the corrective actions from the August 2013 Finding have been implemented as appropriate documentation is being maintained to demonstrate at least 51 percent of the jobs created at the Port of Gulfport are held or made available to low- and moderate-income persons. Additionally, using methodology outlined by the State to account for part-time employment and to address other issues noted in the previous review, a total of 1,167 new jobs were created on the Island View facility, bringing the total created by the Port or tenants of the Port to approximately 1,500.

Lastly, an independent research team at the John C. Stennis Institute of Government at Mississippi State University prepared an EIS that was published on June 1, 2019. HUD's review and discussion of the EIS is below.

MDA has taken appropriate corrective actions since the Finding was first identified in August of 2013 and has met the CDBG National Objective for LMI job creation. Therefore, this longstanding Finding is now **closed**.

Port of Gulfport's Economic Impact Study

Reviewers also considered the overall public benefits provided by the Port project. HUD had some uncertainty about this point for the following reasons. First, a hospitality industry tenant on the Port was not specifically noted in the State's Action Plan amendments, which related to CDBG-DR funding of maritime improvements for the Port. Mixing employment sectors left HUD with some questions regarding overall project benefits. HUD understands that the State's action plan amendments do also discuss non-maritime employment prior to the hurricane. However, the overall context and the State's responses to citizen comments at the time left the impression that maritime businesses were contemplated as Port tenants. To be clear, HUD would have accepted a proposed special economic development activity which included a possible hotel tenant because such an activity is CDBG-eligible and hotels can create a compliant percentage of low/mod jobs. Thus, the issue is not activity eligibility, but that the State did not delineate and HUD therefore may not have understood the recovery impact of the project overall (<https://www.msdisasterrecovery.com/action-plans/port-at-gulfport-restoration-program>).

Based on HUD's tours of the Port and review of related documents during successive monitoring reviews, the State has thoroughly demonstrated that the POG was procured, constructed, signed agreements with tenants, and is largely operating as described in the action plan amendments. To a great extent, then, the State did follow its plan as HUD understood it prior to 2016 when informed of the prospective hotel tenant. However, as noted in previous monitoring reports, the number of total jobs associated with the Port is fewer than the State indicated. The State's amendments reference 2,058 direct maritime jobs at the Port prior to Hurricane Katrina and initially anticipated 5,400 direct, indirect, and induced jobs by 2015 based on the State's 2007 Master Plan.

The achievement of a lower than expected number of total jobs plus inclusion of hospitality industry jobs caused HUD to seek additional information related to the impact of this large investment. Although HUD granted a waiver of the specific dollar thresholds applicable to public benefit generated by special economic development activities (72 FR 10020, March 6, 2007), the State remains subject to requirements related to reasonable activity costs. (Learning from experience, for CDBG-DR grantees under subsequent major appropriations, HUD requires much greater up-front analysis and review of substantial "Covered Projects", including enhanced benefit-cost analysis in certain cases.)

To enable HUD to better understand the context and economic impacts of the Port, HUD asked the State to commission an economic impact study of maritime employment from a reputable source. The State selected a team of researchers from the John C. Stennis Institute of Government at Mississippi State University. One of the study team leaders presented the findings on the economic impact of the Port of Gulfport to the HUD monitoring team and responded to HUD questions. Program staff have reviewed the completed report on the impact analysis, issued in May 2019, and an economist in HUD's Office of Policy Development and Research has indicated that the study applied appropriate research methods.

The Stennis study team delineated its assumptions thoroughly. The team constrained the study by only considering impacts from maritime employment and by limiting the geography considered to three counties: Harrison, Hancock, and Jackson. Construction jobs were not included in the impact calculation and neither was employment at the Island View. This conservative approach would be expected to produce a conservative estimate of the economic impacts of the Port project. Of the 2,464 full time equivalent jobs the study shows are supported by POG, 1,121 were direct jobs benefiting from the assisted activity. Maritime services supported 903 FTEs, and maritime and fabrication industries added 218 FTEs.

HUD questioned and the study team confirmed that the maritime FTEs included retained jobs that the State was not able to document to HUD's standards for national objective purposes, resulting in previous findings and the current CDBG-DR focus solely on created jobs. According to the research team, these retained jobs do exist, benefit from Port improvements, and contribute to the Port's economic impact and public benefit.

The report provides industry explanations for decreased employment at ports and contextual information about ports and trends in the maritime shipping industry. In brief, the Gulf shipping industry since 2005 has been subject to shocks and trends, including Hurricane Katrina, the BP oil spill, the great recession, changes and consolidations in the industry and supply chain, increased regulation, and increased adoption of automated technologies.

Moving from jobs, the report also calculates the economic impact of the Port in dollars, noting annual economic output associated with the maritime industry activities at the POG are in excess of \$425 million annually.

Of the total amount above, the report attributes more than \$246 million to direct impacts and the remainder to indirect and induced impacts calculated by the IMPLAN model. In addition, 1,759 construction FTEs were not included in the study. As required by the State, the Port followed HUD's Section 3 requirements and targeted hiring local LMI workers from within Harrison, Hancock, and Jackson counties.

Based on the review of economic impacts described above, HUD reviewers concluded that even though Port construction was not fully completed until late 2018, the project is now generating sufficient positive impacts to support the scale of the State's investment in the project.